

**REPORT OF THE AUDIT OF  
THE FORMER LINCOLN  
COUNTY CLERK**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
Honorable George O. Spoonamore, IV, Lincoln County Clerk  
Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk, George O. Spoonamore, III (Deceased), of Lincoln County, Kentucky, for the year ended December 31, 2004.

We engaged Moore Stephens Potter, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the former Lincoln County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF FORMER LINCOLN COUNTY CLERK**

**George O. Spoonamore, III (Deceased)**

**For The Year Ended  
December 31, 2004**

Moore Stephens Potter, LLP has completed the former Lincoln County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees due to the Fiscal Court decreased by \$23,669 from the prior year, resulting in excess fees due to the Fiscal Court of \$54,153 as of December 31, 2004. Revenues increased by \$41,646 from the prior year and expenditures increased by \$65,315. Current year disallowed disbursements (excess expense allowance) totaled \$138.

#### **Report Comments:**

- The Former County Clerk Should Have Presented An Annual Settlement To The Fiscal Court
- The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former County Clerk Should Have Received The Approved Amount For Personal Expenses In Monthly Installments Not To Exceed The Annual Maximum
- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

On April 6, 2004, the former County Clerk's deposits were uninsured and uncollateralized in the amount of \$111,443.



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## MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
Honorable George O. Spoonamore, IV, Lincoln County Clerk  
Members of the Lincoln County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of former County Clerk George O. Spoonamore, III (Deceased) of Lincoln County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former County Clerk's office prepared the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2005, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Members in principal cities throughout the world*

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
Honorable George O. Spoonamore, IV, Lincoln County Clerk  
Members of the Lincoln County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former County Clerk Should Have Presented An Annual Settlement To The Fiscal Court
- The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former County Clerk Should Have Received The Approved Amount For Personal Expenses In Monthly Installments Not To Exceed The Annual Maximum
- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Moore Stephens Potter, LLP

Audit fieldwork completed -  
June 25, 2005



LINCOLN COUNTY  
 GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees for Services	\$	6,295
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Fiscal Court		6,911
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Licenses and Taxes:

Motor Vehicle -

Licenses and Transfers	\$	547,485
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Usage Tax		660,494
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Tangible Personal Property Tax		1,324,142
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Licenses -

Fish and Game		4,826
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Marriage		7,280
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Deed Transfer Tax		56,501
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Delinquent Taxes		194,001
		2,794,729

Fees Collected for Services:

Recordings -

Deeds, Easements, and Contracts		17,066
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Real Estate Mortgages		40,651
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Chattel Mortgages and Financing Statements		64,072
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Powers of Attorney		1,232
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All Other Recordings		26,249
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Charges for Other Services -

Copywork		2,423
		151,693

Other:

Lien Fee/Late Fee		7,648
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Notary Fee to Clerk		6,643
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Returned Check Fee		810
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Miscellaneous		6,666
		21,767

Interest Earned		1,283

Total Revenues	\$	2,982,678
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The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY  
 GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle -

Licenses and Transfers	\$ 421,657	
Usage Tax	639,836	
Tangible Personal Property Tax	485,947	

Licenses, Taxes, and Fees -

Delinquent Tax	26,422	
Legal Process Tax	19,971	\$ 1,593,833

Payments to Fiscal Court:

Tangible Personal Property Tax	120,609	
Delinquent Tax	20,932	
Deed Transfer Tax	53,676	195,217

Payments to Other Districts:

Tangible Personal Property Tax	664,711	
Delinquent Tax	103,711	768,422

Payments to Sheriff 2,232

Payments to County Attorney 29,278

Operating Expenditures:

Personnel Services -

Deputies' Salaries 185,776

Employee Benefits -

Employer's Paid Health Insurance 33,234

Contracted Services -

Fish and Game	4,713	
Advertising	578	
Printing and Binding	4,858	
Other Contracts	9,556	19,705

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY  
 GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures (Continued)

Materials and Supplies -		
Office Supplies		\$ 14,220
Other Charges -		
Dues	\$ 500	
Postage	9,645	
Refunds Expense	2,430	
Miscellaneous	841	13,416
Disallowed Expenditures:		
Excess Expense Allowance		138
Total Expenditures		2,855,471
Less: Disallowed Expenditures		(138)
Total Allowable Expenditures		2,855,333
Net Revenues		127,345
Less: Statutory Maximum		(69,592)
Excess Fees		57,753
Less: Expense Allowance		(3,600)
Excess Fees Due Fiscal Court for 2004		54,153
Payment to Fiscal Court - May 11, 2005		(50,000)
Balance Due Fiscal Court		\$ 4,153

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY  
GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the Fiscal Court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 134.310 requires the County Clerk to settle excess fees with the Fiscal Court at the time he files his final settlement with the Fiscal Court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the Fiscal Court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LINCOLN COUNTY  
GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The County officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 7.34 percent for the first six months of the year and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 6, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$111,443 of public funds uninsured and unsecured.

LINCOLN COUNTY  
 GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2004  
 (Continued)

Note 3. Deposits (Continued)

The former County Clerk's deposits are categorized below to give an indication of the level of risk assumed by the former County Clerk at April 6, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the pledging depository institution in the County official's name	325,056
Uninsured and uncollateralized	<u>111,443</u>
Total	<u><u>\$ 536,499</u></u>

Note 4. Grant

During 2004, the County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,738. Interest earned on these grant funds during 2004 totaled \$24. There were no funds expended during 2004 under this grant. Therefore, the balance in the County Clerk's "library grant/archives" account as of December 31, 2004 was \$8,762, including the unexpended grant balance of \$8,738.

Note 5. Leases

The office of the Lincoln County Clerk is committed under a 60-month lease agreement with Pitney Bowes for a postage machine. The lease agreement requires a monthly payment of \$132 through June 30, 2006. The total remaining balance of the lease agreement was \$2,376 as of December 31, 2004.

During 2004, the office of the Lincoln County Clerk executed two lease agreements with Bamill, LLC d/b/a Office Equipment Rental Company (a related party) for copiers for the County Clerk's office. The lease agreements require total annual payments of \$7,698. One lease agreement requires a monthly payment of \$313 for 24 months ending on February 1, 2006. The second lease agreement requires a monthly payment of \$329 for 48 months ending on October 1, 2006. Accordingly, the total remaining balance under these two lease agreements was \$11,612 as of December 31, 2004.



## COMMENTS AND RECOMMENDATIONS



LINCOLN COUNTY  
GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Former County Clerk Should Have Presented An Annual Settlement To The Fiscal Court

KRS 64.152 requires the County Clerk to provide an annual settlement and pay any excess fees due to the Fiscal Court by March 15 subsequent to the close of the County Clerk's fiscal year (i.e. December 31, 2004).

The former County Clerk did not present an annual settlement to the Fiscal Court for the year ending December 31, 2004 by the March 15, 2005 deadline. We recommend that the County Clerk present an annual settlement to the Fiscal Court as required by KRS 64.152

*Current County Clerk George O. Spoonamore, IV's Response: None.*

The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 6, 2004, \$111,443 of the former County Clerk's deposits were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Current County Clerk George O. Spoonamore, IV's Response: None.*

The Former County Clerk Should Have Received The Approved Amount For Personal Expenses In Monthly Installments Not To Exceed The Annual Maximum

Per KRS 64.017, the County Clerk of any county shall receive a maximum annual expense allowance of \$3,600 to be paid from the fees collected by the clerk. In counties of less than 75,000 in population, the expense allowance shall be taken in monthly installments of \$300 from fees collected on a calendar year basis.

During 2004, the total expense allowance amount paid to the former County Clerk totaled \$3,738, resulting in a disallowed expenditure of \$138. We recommend that in the future the County Clerk receive the expense allowance in accordance with KRS 64.017. Additionally, we recommend the former County Clerk reimburse the Lincoln County Fiscal Court in lieu of the 2004 fee account in the amount of \$138 from personal funds for the amount received during calendar year 2004 in excess of the expense allowance maximum of \$3,600.

*Current County Clerk George O. Spoonamore, IV's Response: None.*

LINCOLN COUNTY  
GEORGE O. SPOONAMORE, III, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Former County Clerk's Office Lacked Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is not a material weakness.

We recommend the County Clerk establish a proper segregation of duties over operations. In order to offset this internal control weakness, the County Clerk should assign duties to another deputy/employee. Duties that should be segregated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/employee should document performing these duties by initialing and dating such documentation.

*Current County Clerk George O. Spoonamore, IV's Response: None.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Payment Of Late Fees, Finance Charges, And Sales Tax

*Current County Clerk George O. Spoonamore, IV's Response: None.*

This comment has not been repeated in the current year, however disallowed expenditures relative to an excess expense allowance in the amount of \$138 were identified during the current year audit.

Lacks Adequate Segregation Of Duties

*Current County Clerk George O. Spoonamore, IV's Response: None.*

This comment has been repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





## MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
Honorable George O. Spoonamore, IV, Lincoln County Clerk  
Members of the Lincoln County Fiscal Court

### Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Lincoln County Clerk, George O. Spoonamore, III (Deceased), for the year ended December 31, 2004, and have issued our report thereon dated June 25, 2005. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Lincoln County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Lincoln County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former County Clerk Should Have Presented An Annual Settlement To The Fiscal Court
- The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former County Clerk Should Have Received the Approved Amount For Personal Expenses in Monthly Installments Not To Exceed The Annual Maximum

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Moore Stephens Potter, LLP*

Moore Stephens Potter, LLP

Audit fieldwork completed -  
June 25, 2005





